

# Inspector General

United States  
Department of Defense



## Controls Over Unliquidated Obligations for Department of the Army Contracts

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## Acronyms and Abbreviations

AMC	Army Materiel Command
AMCOM	Aviation and Missile Command Life Cycle Management Command
ASA (FM&C)	Assistant Secretary of the Army (Financial Management and Comptroller)
C3	Command, Control, Communications
DASA (FO)	Deputy Assistant Secretary of the Army (Financial Operations)
DFAS	Defense Finance and Accounting Service
FMR	Financial Management Regulation
PEO	Program Executive Office
RDECOM	Research, Development, and Engineering Command
SMDC/ARSTRAT	U.S. Space and Missile Defense Command/Army Forces Strategic Command



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
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ARLINGTON, VIRGINIA 22202-4704

July 19, 2010

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Controls Over Unliquidated Obligations for Department of the Army Contracts  
(Report No. D-2010-073)

We are providing this report for your review and use. We considered management comments on a draft of this report when preparing the final report.

Comments on the draft of this report conformed to the requirements of DOD Directive 7650.3; therefore, additional comments are not required.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5868.

*Patricia A. Marsh*

Patricia A. Marsh, CPA  
Assistant Inspector General  
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## Results in Brief: Controls Over Unliquidated Obligations for Department of the Army Contracts

### What We Did

Our audit objective was to determine whether the Department of the Army properly accounted for and deobligated unliquidated obligations on contracts supporting overseas contingency operations in a timely manner. The line of accounting used for identifying the Army's use of contingency operations funds was not reliable, and we could not identify specific contracts as supporting the effort. Therefore, we evaluated the triannual review process at Army Materiel Command (AMC) and Aviation and Missile Command Life Cycle Management Command (AMCOM), which may include the review of some unliquidated obligation balances on contracts supporting overseas contingency operations.

### What We Found

Eight Army fund holders did not adequately validate and maintain sufficient documentation supporting their review for 92 of 94 Army unliquidated obligations for the FY 2009 phase I and II triannual review periods. Army triannual review guidance did not provide clear criteria for reviewing and validating unliquidated obligations. Also, Army fund holders did not follow the DOD guidance on maintaining supporting documentation. As a result, the Army had no assurance that unliquidated obligations valued at approximately \$125.8 million represented valid Army needs at the time of the reviews. The Army should also deobligate approximately \$4.4 million related to invalid unliquidated obligations and review approximately \$11 million for obligations for which validity is unknown. Additionally, the Army may have lost the use of \$11.2 million in Operation and Maintenance funds that were canceled. Accurate and timely reviews of unliquidated obligations may identify available funds for other needed requirements.

Further, AMC and its major subordinate command, AMCOM, erroneously reported and certified unliquidated obligations for Operation and Maintenance funds on the FY 2009 phase I and II triannual review confirmation statements. In addition, AMCOM erroneously deobligated unliquidated obligation balances for Operation and Maintenance funds. This occurred because AMC and AMCOM had not established internal controls over the triannual review process. The Army is at an

increased risk of losing funds that were not adequately reviewed in a timely manner.

### What We Recommend

The Assistant Secretary of the Army (Financial Management and Comptroller) should establish guidance for all Army fund holders to perform adequate reviews of unliquidated obligations, deobligate approximately \$4.4 million in funds, review approximately \$11 million related to obligations for which validity is unknown, conduct a preliminary review of a potential Antideficiency Act violation, and initiate actions based on the results of the review.

The Director, Resource Management, AMC, should rescind its guidance on the triannual review that conflicts with DOD's, verify that unliquidated obligations reported on confirmation statements match the unliquidated obligations reviewed and certified, and establish due dates for the statements.

The Director, Resource Management, AMCOM, should verify that the unliquidated obligations it reports match the amount reviewed, establish procedures to verify that unliquidated obligations are retrieved for the correct dates, establish due dates for the receipt of confirmation statements, and establish a process to ensure that fund holders perform adequate reviews before deobligating funds.

### Management Comments and Our Response

The Deputy Assistant Secretary of the Army (Financial Operations), responding on behalf of the Assistant Secretary of the Army (Financial Management and Comptroller); the Executive Deputy to the Commanding General, AMC, responding on behalf of the Director, Resource Management, AMC; and the Deputy to the Commanding General, AMCOM, responding on behalf of the Director, Resource Management, AMCOM, agreed with the recommendations, and their comments were responsive. Please see the recommendations table on page ii.

## Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Assistant Secretary of the Army (Financial Management and Comptroller)		A.1, A.2, A.3, A.4, A.5, A.6
Director, Resource Management, Army Materiel Command		B.1.a, B.1.b, B.1.c
Director, Resource Management, Aviation and Missile Command Life Cycle Management Command		B.2.a, B.2.b, B.2.c, B.2.d, B.2.e

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# Introduction

## Objective

Our audit objective was to determine whether the Department of the Army properly accounted for and deobligated unliquidated obligations on contracts supporting overseas contingency operations in a timely manner. We attempted to isolate either contracts or funds that were specifically designated as supporting overseas contingency operations. However, neither the Army contracts nor the line of accounting reliably identified contracts or funds supporting overseas contingency operations. As a result, we evaluated the Army's triannual unliquidated obligation review process, which may include the review of some unliquidated obligations on contracts supporting overseas contingency operations. Therefore, we removed overseas contingency operations from the audit objective. See Appendix A for a discussion of the scope and methodology. See Appendix B for prior coverage related to the objective.

## Background

The U.S. Army Aviation and Missile Command Life Cycle Management Command (AMCOM) is one of the major subordinate commands reporting to the Army Materiel Command (AMC). We reviewed the AMC and AMCOM triannual review process. In addition, we sampled unliquidated obligations related to AMCOM and seven other Army fund holders located at Redstone Arsenal.<sup>1</sup> AMCOM is responsible for supporting Redstone Arsenal fund holders that use the Standard Operation and Maintenance Army Research and Development System (the accounting system). Unliquidated obligations chosen for review were funded with Operation and Maintenance appropriations.

## *Obligation Process*

An obligation is the amount of an order placed, contract awarded, or service received during an accounting period that requires future payment. It is recorded when an authorized agent of the Federal Government enters into a legally binding agreement to purchase specific goods or services. The recorded obligation reduces by the amount of payments made on bills received. The obligated balance still owed is the unliquidated balance. When all services or goods have been received and paid for, the obligation is considered "liquidated," and any remaining balance should be deobligated to make the funds available for other uses. However, funds can only be obligated in the fiscal years for which they are available or used for adjustments to or payments of existing obligations. Operation and Maintenance appropriations are available for obligation for one fiscal year, available for expenditure for the next 5 fiscal years, and canceled at the end of the fifth year after expiration of the appropriation. Canceled funds are not available for expenditure for any reason.

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<sup>1</sup> A fund holder is the fiscal officer of an activity or office that is issued a formal subdivision of funds.

## ***Department of Defense Triannual Review Guidance***

The DOD Regulation 7000.14-R, “DOD Financial Management Regulation” (DOD FMR), Volume 3, Chapter 8, “Standards for Recording and Reviewing Commitments and Obligations,” November 2000, implemented a triannual review process that requires fund holders and supporting accounting offices to monitor obligations and validate all unliquidated obligations three times a year for timeliness, accuracy, and completeness. The fund holder, with assistance from the Defense Finance and Accounting Service (DFAS) if requested, must verify that there is documentary evidence to support the continued need for the obligation and any remaining funds to properly validate an unliquidated obligation. In addition, DOD FMR, volume 3, chapter 8, requires fund holders to maintain adequate documentation supporting those reviews for 24 months. The fund holders must also complete a signed confirmation statement that they reviewed the accuracy and completeness of the recorded amounts.

## ***Army Triannual Review Guidance***

DFAS Indianapolis, in coordination with the Assistant Secretary of the Army (Financial Management and Comptroller [ASA (FM&C)]), established DFAS Indianapolis 37-1 (DFAS-IN 37-1), “Finance and Policy Implementation,” Chapter 27, May 2008, which provides guidance for the triannual review of unliquidated obligations. DFAS-IN 37-1 requires that fund holders perform a joint review of unliquidated obligations in three phases during the fiscal year. Specifically, fund holders must review all:

- phase I transactions funded by appropriations that are expired and will cancel on October 1 of the next fiscal year;
- phase II transactions funded by expired appropriations that will not be canceled at the end of the current fiscal year; and
- phase III unexpired-year unliquidated obligations.

DFAS-IN 37-1 requires the fund holder to maintain supporting documentation of the triannual review for 24 months after completion. These reviews provide the basis for the fund holders’ certifying the full review and validation of unliquidated obligations. Further, DFAS-IN 37-1 states that fund holders are to provide the Deputy Assistant Secretary of the Army (Financial Operations) (DASA [FO]) statements confirming that they conducted triannual obligation reviews. If unable to provide a confirmation statement supporting the accuracy of reported obligations, the fund holder must provide a full explanation and document any corrective actions taken.

## **Review of Internal Controls**

DOD Instruction 5010.40, “Managers’ Internal Control (MIC) Program Procedures,” January 4, 2006, requires DOD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses for AMC and AMCOM. AMC and AMCOM did not perform adequate oversight of the process for reporting and certifying unliquidated obligation reviews. Implementing Recommendations B.1 and B.2 will improve the accuracy and

completeness of the AMC and AMCOM triannual review process. In addition, AMCOM deobligated funds without performing adequate reviews. Implementing Recommendation B.2.e will ensure that only funds no longer required are deobligated. Also, the Department of the Army has not issued guidance that establishes a standardized process for the review of unliquidated obligations. Implementing Recommendation A.1 will improve the Army fund holders' triannual review process. We will provide a copy of the report to the senior Department of the Army official responsible for internal controls.

## **Finding A. Fund Holder Phase I and II Reviews**

Eight Army fund holders did not adequately validate and maintain sufficient documentation supporting their review for 92 of 94 Army unliquidated obligations for the FY 2009 phase I and II triannual review periods. Army triannual review guidance did not provide clear criteria for reviewing and validating unliquidated obligations. Also, Army fund holders did not follow the DOD FMR and DFAS-IN 37-1 guidance on maintaining supporting documentation. As a result, the Army had no assurance that unliquidated obligations valued at approximately \$125.8 million represented valid Army needs at the time of the reviews. The Army should also deobligate approximately \$4.4 million related to invalid unliquidated obligations and review approximately \$11 million related to obligations for which the validity is unknown. Additionally, the Army may have lost the use of \$11.2 million in Operation and Maintenance funds that were canceled.

### **Reviews by Army Fund Holders**

We selected and reviewed 64 phase I and 30 phase II unliquidated obligations from the FY 2009 AMCOM triannual review (see Appendix A for a detailed discussion of the scope and methodology used to determine this sample). Eight Army fund holders at Redstone Arsenal were responsible for reviewing the validity of the 94 selected unliquidated obligations valued at approximately \$125.8 million (see Appendix D). These fund holders are:

- AMCOM;
- Program Executive Office (PEO) Aviation;
- PEO Missile and Space;
- PEO Air and Missile Defense;
- PEO Command, Control, Communications (C3) Tactical;
- U.S. Army Garrison-Redstone;
- Research, Development, and Engineering Command (RDECOM); and
- U.S. Space and Missile Defense Command/Army Forces Strategic Command (SMDC/ARSTRAT).

### ***Validation of Unliquidated Obligations***

The 8 Army fund holders did not perform adequate reviews to validate 92 of 94 unliquidated obligations valued at approximately \$125.8 million. The reviews were inadequate because the documentation provided did not support the validity of the unliquidated obligation. DFAS-IN 37-1 requires the review and validation of unliquidated obligations to verify that they are correct and in agreement with source data. However, the DOD guidance did not include the specific steps or type of source data to use. Because reviewers lacked guidance, the review steps varied from one fund holder to the next, and the fund holders used inconsistent or no source data to perform the reviews. Examples include the following.

- Reviewers at SMDC/ARSTRAT provided the confirmation statement and a report of the total unliquidated obligation balance to support their review; however, the review was inadequate. The documentation provided did not validate the accuracy of the obligation or disbursement amounts to independent source data, which would include contract modifications and disbursement histories from the entitlement system.
- Reviewers at AMCOM provided an e-mail from the contracting specialist indicating the contract status and the contract modification as justification for the unliquidated balance. The review was inadequate because the fund holder did not validate the disbursement amount to independent source data.

The Army should issue standardized guidance detailing the specific steps to validate the obligation and disbursement amounts for an unliquidated obligation. The guidance should also indicate the type of source documents required to perform unliquidated obligation reviews.

### ***Maintenance of Supporting Documentation***

The 8 Army fund holders did not maintain adequate documentation supporting their FY 2009 phase I and II triannual reviews for 92 of the 94 unliquidated obligations. DOD FMR, volume 3, chapter 8, and DFAS-IN 37-1 require the fund holders to maintain adequate documentation supporting their reviews for 24 months. For 10 of the 92 unliquidated obligations, the fund holders did not provide documentation of their review. For the remaining 82 unliquidated obligations, the supporting documentation provided was inadequate because it was improper, incomplete, or dated after the fund holders should have performed the review. The documentation would allow independent organizations to verify that personnel properly completed the reviews. It would also assure the Army that the unliquidated funds were still needed. The fund holders should maintain adequate documentation to support their unliquidated obligation reviews.

## **Review of Unliquidated Obligations**

We requested additional information from DFAS officials, contracting officials, AMCOM Resource Management officials, and other fund holder officials to conduct an independent review of the 94 unliquidated obligations. The review resulted in unliquidated obligations categorized as valid, invalid, or validity unknown. In addition, one invalid unliquidated obligation reviewed resulted in a potential Antideficiency Act violation. See Appendix C for a general outline of the specific steps and source data we used to perform our reviews and see Appendix D for details of our review by fund holder.

### ***Valid***

Our independent review determined that 39 of the 94 unliquidated obligations were valid. The determination was based on a review of supporting source documents, including obligation and disbursement transaction history reports, contract modifications, disbursement vouchers, and billing invoices. In some cases, we contacted contracting personnel to verify that a valid need for the funds still existed.

## ***Invalid***

Our independent review determined that 25 of the 94 unliquidated obligations were invalid even though the Army categorized them as valid. In addition, one of them may have violated the Antideficiency Act. The invalid unliquidated obligations amounted to approximately \$4.4 million in recommended deobligations and approximately \$408,000 in funds that were canceled. Funds that are canceled are no longer available for disbursement, and current-year funds must be used to pay any valid claims owed to the contractor. The following table identifies the AMCOM fund holder, contract, and amount of unliquidated obligations identified as requiring deobligation or amount of funds lost due to cancellation before deobligation of the funds. The Army should deobligate approximately \$4.4 million in invalid funds on three contracts.

**Required Deobligations and Funds Canceled**

<b>Army Fund Holder</b>	<b>Contract Reviewed</b>	<b>Amount of Funds to Be Deobligated</b>	<b>Amount of Canceled Funds</b>
PEO Aviation	W58RGZ06C0194	\$2,281,604	
PEO Aviation	W58RGZ04G00230012	734,436	
PEO Missile and Space	DAJA3791H5011		\$168,054
AMCOM	DASG6094C0073		169,057
AMCOM	W31P4Q04C0046		65,279
AMCOM	W31P4Q04C0099		5,584
AMCOM	W31P4Q06C0352	1,343,794	
<b>Total</b>		<b>\$4,359,834</b>	<b>\$407,974</b>

## **Review of Potential ADA Violation**

Our review of one PEO Aviation unliquidated obligation, valued at approximately \$2.3 million, on contract W58RGZ06C0194 determined that the unliquidated obligation was invalid because a need for the entire amount of the obligation did not exist at the time of the initial obligation. The contracting officer provided documentation showing that the contractor filed a claim in June 2007. In July 2007, the attorney-advisor indicated that FY 2007 funds should be used to pay the claim. PEO Aviation personnel obligated approximately \$3.4 million in FY 2006 Operation and Maintenance funds on July 31, 2007, in anticipation of this claim. The documentation provided by the contracting officer only supported \$328,410 of the approximately \$3.4 million obligation. At the time, PEO Aviation should not have obligated approximately \$3 million because that was in excess of the estimated claim amount. The PEO's actions violated section 1501(a), title 31, United States Code.<sup>2</sup>

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<sup>2</sup> An amount should only be recorded as an obligation when supported by documentary evidence. The obligation must be made within the appropriation's period of availability and used for specific goods to be delivered or services to be provided.



On June 12, 2007, the contractor filed the claim that was subsequently settled for approximately \$1 million. The contracting officer used obligated FY 2006 funds to pay the claim in April 2008, leaving a remaining unliquidated obligation balance of approximately \$2.3 million. After payment of the claim, the attorney-advisor reviewed the contract and found no issues with the amount and use of FY 2006 funds. However, this legal review conflicted with the original advice to pay the claim using FY 2007 funds.

When we contacted PEO Aviation, the attorney-advisor said that he would investigate whether the Government used the correct fiscal year funds to make the payment and fix any errors found. The PEO's actions may have violated section 1502(a), title 31, United States Code.<sup>3</sup> The Army should conduct a preliminary review of the potential Antideficiency Act violation in accordance with DOD FMR, Volume 14, Chapter 3, "Preliminary Reviews of Potential Violations," February 2008. In addition, the Army should deobligate the remaining unliquidated obligation of approximately \$2.3 million and discontinue the practice of obligating funds in anticipation of claims when there is no documentation to support the claim amount.

### ***Validity Unknown***

We could not determine the validity for 30 of the 94 unliquidated obligations, valued at approximately \$21.8 million. Sixteen of the 30 could not be validated because the entitlement systems did not match payments to the correct contract line in the accounting system. We could not validate the remaining 14 unliquidated obligations because adequate supporting documentation was not provided or the Army could not provide a knowledgeable point of contact to assist us in performing the review.

The Army may have lost the use of approximately \$10.8 million in Operation and Maintenance funds for 28 of the 30 unliquidated obligations because the funds were canceled before the Army performed an adequate review. The Army needs to review the 2 remaining unliquidated obligation balances, valued at approximately \$11 million, on contract W31P4Q06C0256 related to PEO Aviation funds and determine whether a valid need still exists for the obligation.

### **Conclusion**

ASA (FM&C) had no assurance that the 8 Army fund holders located at Redstone Arsenal adequately reviewed and validated 92 of 94 phase I and II unliquidated obligations valued at approximately \$125.8 million. By conducting an adequate review, the fund holders might have identified nearly \$4.4 million in invalid unliquidated obligations and approximately \$408,000 in invalid unliquidated obligations that were canceled and put the funds to better use. In addition, the Army may have lost the use of \$10.8 million in funds that were canceled before it performed an adequate review.

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<sup>3</sup> Appropriated funds can only be obligated in the fiscal years for which they are available. Funds are not available for expenditure beyond the period of availability unless authorized by law.

Establishing Army guidance that identifies the specific steps and source data to use when validating unliquidated obligations would ensure that all fund holders consistently perform adequate reviews. This guidance would also assist the Army in identifying funds held on invalid obligations that could be used for other Army needs. Performing adequate reviews would also promote the most efficient use of resources by enabling the Army to use funds before they were canceled.

## **Recommendations, Management Comments, and Our Response**

### **A. We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller):**

**1. Establish standardized guidance that includes the specific steps and types of source data to ensure that all Army fund holders perform adequate triannual reviews of unliquidated obligations.**

#### ***ASA (FM&C) Comments***

The Deputy Assistant Secretary of the Army (Financial Operations), responding on behalf of ASA (FM&C), agreed to prepare a memorandum directing that resource managers demonstrate that they have validated the continuing need for goods and services in support of unliquidated obligations with the requiring activities. The memorandum was issued on April 19, 2010.

**2. Develop a process to ensure that Army fund holders maintain adequate supporting documentation of their reviews for 24 months as required by the DOD Financial Management Regulation, volume 3, chapter 8, and Defense Finance and Accounting Service-Indianapolis 37-1, chapter 27.**

#### ***ASA (FM&C) Comments***

The Deputy Assistant Secretary agreed to prepare a memorandum directing that the triannual review be performed in accordance with the DOD FMR and DFAS-IN 37-1. The memorandum will also require that obligations, obligation adjustments, and accounting records be fully supported with proper documentation. The memorandum was issued on April 19, 2010.

#### ***Our Response***

The Deputy Assistant Secretary's comments on Recommendations A.1 and A.2 were responsive and conformed to requirements; no additional comments are needed.

**3. Deobligate \$4.4 million in invalid unliquidated obligations on contracts W58RGZ06C0194, W58RGZ04G00230012, and W31P4Q06C0352.**

***ASA (FM&C) Comments***

The Deputy Assistant Secretary agreed to direct the applicable fund holders to review contracts W58RGZ04G00230012 and W31P4Q06C0352, determine the validity of unliquidated obligation balances, and deobligate any invalid unliquidated balances. His office expected to receive the results of the fund holders' review in June 2010. In addition, he has agreed to direct the fund holder for contract W58RGZ06C0194 to initiate a preliminary investigation of a potential Antideficiency Act violation in accordance with DOD FMR, volume 14, chapter 3, paragraph 030402. He issued the directive on April 30, 2010.

***Our Response***

The Deputy Assistant Secretary's comments on contracts W58RGZ04G00230012 and W31P4Q06C0352 were responsive and conformed to requirements. In addition, the performance of a preliminary review of a potential Antideficiency Act violation for contract W58RGZ06C0194 would identify invalid unliquidated obligations and meet the intent of the recommendation. No additional comments are needed.

**4. Conduct a review of the potential Antideficiency Act violation for contract W58RGZ06C0194, initiate appropriate actions based on the results of the review, and provide the results to us.**

***ASA (FM&C) Comments***

The Deputy Assistant Secretary agreed to direct the fund holder for contract W58RGZ06C0194 to initiate a preliminary review of a potential Antideficiency Act violation in accordance with DOD FMR, volume 14, chapter 3, paragraph 030402. He issued the directive on April 30, 2010.

**5. Establish procedures to discontinue the practice of obligating funds in anticipation of contractor claims when there is no supporting documentation to support the claim amount.**

***ASA (FM&C) Comments***

The Deputy Assistant Secretary agreed to prepare a memorandum requiring that obligations, obligation adjustments, and accounting records be fully supported with proper documentation. The memorandum was issued on April 19, 2010.

**6. Review two Program Executive Office Aviation unliquidated obligation balances totaling approximately \$11 million on contract W31P4Q06C0256 to determine the validity and provide the results to us.**

***ASA (FM&C) Comments***

The Deputy Assistant Secretary agreed to direct the applicable fund holders to review and determine the validity of the \$11 million unliquidated obligation on contract W31P4Q06C0256. His office expected the results of the fund holders' review in June 2010.

***Our Response***

The Deputy Assistant Secretary's comments on Recommendations A.4, A.5, and A.6 were responsive and conformed to requirements; no additional comments are needed.

## **Finding B. AMC and AMCOM Triannual Review Process**

AMC and AMCOM erroneously reported and certified unliquidated obligations for Operation and Maintenance funds on the FY 2009 phase I and II triannual review confirmation statements. In addition, AMCOM erroneously deobligated unliquidated obligation balances for Operation and Maintenance funds. This occurred because AMC and AMCOM had not established internal controls over the triannual review process. As a result, the Army was at an increased risk of losing funds that were not adequately reviewed in a timely manner. See Finding A for instances where we identified approximately \$4.4 million in funds that were available for better use by the Army and potentially lost \$11.2 million in Operation and Maintenance funds that were canceled.

### **AMC and AMCOM Triannual Review Reporting Process**

AMC provides guidance to its major subordinate commands before each triannual review. After receiving the guidance, AMCOM provides designated personnel<sup>4</sup> with a spreadsheet of unliquidated obligations from the accounting system. These individuals are required to provide a confirmation statement to the AMCOM Resource Management office certifying the completion of their unliquidated obligation review. AMCOM then provides the confirmation statement to the Director, Resource Management, AMC. AMC consolidates the confirmation statements for all its major subordinate commands for each phase and forwards the confirmation statement to the DASA (FO) to support its triannual review.

### **AMCOM Reporting and Certifying**

AMCOM erroneously reported and certified unliquidated obligations on its FY 2009 phase I and II triannual review confirmation statements. AMCOM had not established internal controls over the triannual review process, which resulted in the erroneous reporting of unliquidated obligations on the FY 2009 phase I and II triannual review confirmation statements. Specifically, AMCOM did not:

- verify that reviewed balances matched the balances reported,
- ensure the receipt of confirmation statements from all designated personnel,
- use the correct review date for unliquidated obligation balances, and
- sign its confirmation statement by the required date.

### ***Verification of Balances***

AMCOM erroneously reported a phase I unliquidated obligation balance of approximately \$24.4 million on its confirmation statement. The actual dollar value of the phase I unliquidated obligations requiring review was approximately \$11.6 million,

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<sup>4</sup> Designated personnel are the individuals from different cost centers identified by AMCOM, the fund holder, to perform unliquidated obligation reviews.

approximately \$12.8 million less than the \$24.4 million reported on the confirmation statement. For phase II, AMCOM erroneously reported an unliquidated balance of approximately \$13.6 million on its confirmation statement. The actual unliquidated balance requiring review was approximately \$153.6 million, or \$140 million more than what was reported. AMCOM personnel had not established internal controls to verify that amounts reported on the confirmation statement matched the amounts the designated personnel reported as reviewed. AMCOM should establish a process to ensure that the phase I and II unliquidated obligation balances sent to designated personnel match those balances reported as reviewed.

### ***Receipt of Confirmation Statements***

AMCOM erroneously reported unliquidated obligation balances as certified on the phase I and II confirmation statements before it received all of the designated personnel confirmation statements. AMCOM guidance requires that designated personnel provide a confirmation statement certifying their review. However, AMCOM officials had not established controls to ensure that all designated personnel prepared and submitted a confirmation statement. AMCOM only required the designated personnel to sign that they received the unliquidated balance information.

For example, four of six designated personnel did not provide a confirmation statement supporting their phase I review. By not ensuring that it received all confirmation statements from designated personnel, AMCOM did not ensure that all required balances were reviewed. AMCOM officials need to establish procedures to verify the receipt of confirmation statements from all designated personnel before providing their confirmation statement to AMC.

### ***Date of Phase I Unliquidated Obligation Data***

AMCOM erroneously reported the wrong unliquidated obligation balance for the FY 2009 phase I triannual review confirmation statement. DOD FMR, volume 3, chapter 8, and DFAS-IN 37-1 require the fund holders to review unliquidated obligations for phase I as of January 31. However, AMCOM followed AMC guidance that directed a review of unliquidated obligations as of December 31. By using December 31, 2008, AMCOM reviewed the incorrect balance of unliquidated obligations. The AMCOM phase I unliquidated obligation balance as of December 31, 2008, was approximately \$11.6 million. The January 31, 2009, balance was approximately \$11.4 million. AMCOM should establish controls to ensure that it uses the correct date when retrieving unliquidated obligations to review for each phase. In addition, AMC should rescind the guidance that conflicts with DOD FMR and DFAS-IN 37-1.

### ***Date of Phase II Certification***

AMCOM erroneously certified unliquidated obligation balances for the phase II triannual review after the required date of certification. AMCOM had not established internal controls to ensure that it signed the confirmation statement before the required date. DOD FMR, volume 3, chapter 8, and DFAS-IN 37-1 require that the fund holders sign the confirmation statements no later than 21 days after the review. AMCOM signed its phase II confirmation statement on June 25, 2009, which was 4 days late. AMCOM

officials need to establish due dates for receipt of triannual reviews to enable the signing of the confirmation statement within the required time frames.

## **AMC Reporting and Certifying**

AMC erroneously reported validated unliquidated obligation amounts to DASA (FO) that did not match the amounts certified by AMCOM on its FY 2009 phase I triannual review confirmation statement. Specifically, AMC reported approximately \$11.4 million in unliquidated obligations reviewed, which was approximately \$13 million less than what AMCOM reported. This occurred because AMC personnel had not established controls to verify that the amounts AMCOM submitted as validated matched the amounts AMC reported to DASA (FO). AMC should establish a process to ensure that it reports the amounts validated by its major subordinate commands on its confirmation statements to DASA (FO).

In addition, AMC erroneously certified unliquidated obligation balances for the phase I and II triannual reviews after the required date of certification. AMC had not established internal controls to ensure that it signed the confirmation statement by the required date. DOD FMR, volume 3, chapter 8, and DFAS-IN 37-1 require the fund holders to sign the confirmation statements no later than 21 days after the review. AMC signed its phase I confirmation statement on March 16, 2009, which was 23 days after the required deadline for certification. AMC signed the phase II confirmation statement on July 1, 2009, which was 10 days after the required deadline. AMC needs to establish due dates for receipt of triannual reviews to enable the signing of the confirmation statements within the required time frames.

## **AMCOM Deobligation of Unliquidated Balances**

AMCOM inappropriately deobligated unliquidated obligation amounts in the accounting system, thereby eliminating amounts that it should have reviewed. AMCOM had not established internal controls to ensure that it adequately reviews unliquidated obligations before deobligating them. During our review, we identified 23 instances in which AMCOM officials deobligated approximately \$8.1 million in Operation and Maintenance funds without determining whether there was a need for the funds. In one example, AMCOM personnel deobligated unliquidated obligations totaling \$3.5 million before the end of the FY 2009 phase I review. When asked to provide support for the deobligations, officials indicated that there was no support. The amount was deobligated to meet AMC goals that phase I unliquidated obligations equal zero by June 30. The unliquidated obligations totaling \$3.5 million were not included, and should have been, on the list of unliquidated obligations requiring review for phase I.

According to the “Principles of Federal Appropriations Law,” volume II, February 2006, unliquidated obligations should not be deobligated without a valid reason, and it is improper to deobligate funds solely to “free them up” for new obligations. If the funds are canceled without a proper review before deobligation, AMCOM could lose the use of the funds that it could otherwise pay to contractors. For example, for one unliquidated obligation, AMCOM officials had to reobligate and disburse approximately \$56,800 for an additional invoice submitted after AMCOM had deobligated the funds. By



deobligating the funds without a proper review, AMCOM would have to use current-year funds if the contractor submitted an invoice after the funds were canceled. AMCOM should establish controls to ensure that it performs and documents an adequate review before any funds are deobligated from the accounting system.

## **Conclusion**

Because of inadequate controls over the AMC and AMCOM triannual review reporting and certification process, ASA (FM&C) lacked the necessary information to make decisions related to the use of Army funds. Erroneous reporting could increase the risk that funds are unavailable for other Army needs because AMC and AMCOM are not identifying funds available for deobligation in a timely manner. For example, in Finding A, we identified the \$4.4 million in deobligations and \$11.2 million in potential funds lost. Inaccurate reporting could also lead to the erroneous conclusion that a continued need exists for all unliquidated obligation amounts reported as reviewed. Establishing internal controls would improve the triannual review process and allow AMC and AMCOM to prevent the future loss of funds by identifying, in a timely manner, funds that are no longer needed and are available for other needs.

## **Management Actions**

AMCOM erroneously reported the phase I certification of 15 fund holders for which it had not allocated funds and, thus, was not responsible for reporting. This occurred because of past reporting relationships that had existed between AMCOM and the fund holders. Army reorganizations have resulted in changes in reporting relationships, and the triannual review reporting process had not been updated to reflect the changes.

AMCOM officials agreed to discontinue the certification of Army fund holders for which AMCOM was not responsible. They corrected this practice when preparing the phase II confirmation statement and removed the 15 fund holders. Therefore, we are not making a recommendation to discontinue the certification of other Army fund holders for which AMCOM was not responsible. We commend AMCOM officials for the actions taken.

## **Recommendations, Management Comments, and Our Response**

**B.1. We recommend that the Director, Resource Management, Army Materiel Command:**

**a. Rescind the Army Materiel Command triannual review guidance that conflicts with the DOD guidance regarding the date of the unliquidated obligation balances to review.**

### ***AMC Comments***

The Executive Deputy to the Commanding General, AMC, responded for the Director, Resource Management, AMC, and agreed with the intent of the recommendation. She stated that AMC provides the guidance from ASA (FM&C) for each phase of the joint reviews. Further, she stated that AMC did not provide information to its major

subordinate commands that conflicts with DOD guidance. She stated that AMC would provide internal standard operating procedures that comply with the DOD guidance for future reviews in addition to the guidance from ASA (FM&C). The procedures were projected to be released by June 30, 2010.

### ***Our Response***

The Executive Deputy agreed with the intent of the recommendation. AMCOM officials had told us that they had received guidance from AMC that conflicted with the DOD guidance. Although AMC did not agree with our recommendation to rescind the conflicting guidance, the actions taken by the Executive Deputy, including providing standard operating procedures that comply with the DOD guidance for future reviews, satisfy the intent of the recommendation. Management comments were responsive to the recommendation and conformed to requirements; no additional comments are needed.

**b. Verify that the unliquidated obligations reported on the Army Materiel Command triannual review confirmation statements match the balance of unliquidated obligations reviewed and certified by the Aviation and Missile Command Life Cycle Management Command and its other major subordinate commands.**

### ***AMC Comments***

The Executive Deputy agreed, stating that AMC would work with its major subordinate commands to verify that the unliquidated obligations reported match the balances on the confirmation statements as well as the DFAS data. In addition, AMC officials were developing procedures to assist commands in accurately reporting data for the triannual review phases. The standard operating procedures were projected to be released by June 30, 2010.

**c. Establish due dates for receipt of the triannual reviews to ensure that the Army Materiel Command signs the confirmation statements for the Aviation and Missile Command Life Cycle Management Command and other major subordinate commands within the required time frames.**

### ***AMC Comments***

The Executive Deputy agreed, stating that AMC would establish due dates for receipt of the triannual review reports from its major subordinate commands to allow time for consolidation and to ensure that confirmation statements are signed within the required time frames. In addition, AMC ensured that all submissions for the FY 2010 Phase I triannual review were submitted within the required time frame.

### ***Our Response***

The Executive Deputy's comments on Recommendations B.1.b and B.1.c were responsive and conformed to requirements; no additional comments are needed.

**B.2. We recommend that the Director, Resource Management, Army Aviation and Missile Command Life Cycle Management Command:**

**a. Establish procedures to verify that the unliquidated obligations reported on its triannual review confirmation statements match the balance of unliquidated obligations that were reviewed.**

***AMCOM Comments***

The Deputy to the Commanding General, AMCOM, responding on behalf of the Director, Resource Management agreed, stating that the unliquidated obligations balance was manually annotated on the confirmation worksheet incorrectly. He stated that AMC identified the error and contacted AMCOM for clarification. AMCOM provided verbal clarification of the correct balance, but mistakenly forgot to update the worksheet. He also stated that AMCOM officials would ensure that supporting data from the source are properly annotated on the manual confirmation worksheets in the future. In addition, AMCOM officials were developing a checklist that would include a check to ensure that manual worksheets are complete and accurate. The checklist was projected to be implemented by July 15, 2010.

***Our Response***

The Deputy acknowledged that AMCOM incorrectly reported unliquidated obligation balances to AMC. During our audit, neither AMC nor AMCOM officials indicated that the incorrect balances had been corrected. Nevertheless, the actions taken by the Deputy, including developing a checklist to ensure that the worksheets are annotated correctly, were responsive to the recommendation and conformed to requirements; no additional comments are needed.

**b. Establish procedures to verify that all designated personnel have provided confirmation statements before signing its confirmation statement for the Army Materiel Command.**

***AMCOM Comments***

The Deputy agreed. He stated that AMCOM provided the auditors with copies of the phase I confirmation reviews during the audit, which showed that AMCOM had signed the command confirmation statement before receiving the individual confirmation statements from the designated personnel. He also stated that beginning with the FY 2010 Phase I review, AMCOM has ensured that all designated personnel provide signed confirmation statements before it signs its confirmation statement. In addition, AMCOM officials were developing a roster and planned to maintain the names of those persons designated to confirm, record, sign, and date the confirmation statements. The roster was projected to be implemented by June 30, 2010.

***Our Response***

The Deputy acknowledged that AMCOM erroneously reported unliquidated obligation balances on its confirmation statement before receiving all the individual confirmation

statements from the designated personnel. As stated in the report, four of six designated personnel did not submit a phase I confirmation statement. The actions taken by the Deputy, including developing a roster that will maintain the names of those persons designated to confirm, record, sign, and date the confirmation statements, were responsive to the recommendation and conformed to requirements; no additional comments are needed.

**c. Establish procedures to ensure that it uses the correct date when retrieving unliquidated obligations to review for each triannual review phase.**

### ***AMCOM Comments***

The Deputy agreed, stating that AMCOM incorrectly used the December 31, 2008, unliquidated obligation balance instead of the January 31, 2009, unliquidated obligation balance. He stated that this was an inadvertent mistake, which was corrected in January 2010 during the phase I review. He also stated that this was a one-time oversight that was corrected by AMC in February 2009 before submission to the Department of the Army. In addition, he stated that AMCOM has been following DFAS-IN Regulation 37-1 and the DOD FMR since 1997. To improve the current process, AMCOM officials were preparing a checklist that would be used to identify the proper data sources for the triannual reviews. The checklist was projected to be implemented by July 15, 2010.

### ***Our Response***

The Deputy acknowledged that AMCOM used the December 31, 2008, unliquidated obligation balance instead of the January 31, 2009, unliquidated obligation balance. DOD FMR, volume 3, chapter 8, and DFAS-IN 37-1 require the fund holders to review unliquidated obligations for phase I as of January 31. However, AMCOM followed guidance that conflicted with the DOD FMR and DFAS-IN 37-1. The actions taken by the Deputy, including preparing a checklist that would be used to identify the proper data sources for the confirmation statements, were responsive to the recommendation and conformed to requirements; no additional comments are needed.

**d. Establish due dates for receipt of the triannual reviews to ensure that Army designated personnel sign the confirmation statements within the required time frame so its confirmation statement is submitted to the Army Materiel Command in a timely manner.**

### ***AMCOM Comments***

The Deputy agreed, stating that AMCOM signed the command statement before receiving all of the confirmation statements from the designated personnel. He also stated that the designated personnel did not meet the suspense dates set by AMCOM. He further stated that AMCOM has implemented a new process to ensure that statements are received by the suspense dates. Effective immediately, the Financial Management Division Managerial Accounting Branch has established a log to track the status of the triannual reviews.

## ***Our Response***

The Deputy's comments were responsive and conformed to requirements; no additional comments are needed.

**e. Establish a review process that ensures that Army designated personnel perform and document adequate reviews before it deobligates funds from the accounting system.**

## ***AMCOM Comments***

The Deputy agreed, stating that beginning with the FY 2010 Phase I review, AMCOM would ensure that deobligations of unliquidated obligations were supported with proper documentation. He stated that AMCOM has a review process which ensures that Army designated personnel perform and document review results adequately before funds are deobligated from the accounting system. He further stated that the review process has been in place since 2000, in accordance with AMCOMR 37-17, "Financial Administration, Joint Reconciliation Program." To enhance the current process, AMCOM officials were developing criteria and a list of records that must be retrieved and maintained by the Financial Management Division Managerial Accounting Branch before a deobligation is made. The criteria and list of documents were to be included in the checklist referred to in comment B.2.a. These actions were projected to be implemented by July 15, 2010.

## ***Our Response***

The Deputy agreed with our recommendation. He stated that AMCOM has a review process for reviewing, documenting, and deobligating funds from the accounting system that has been in place since September 2000. However, our review identified 23 instances for which AMCOM officials deobligated approximately \$8.1 million in Operation and Maintenance funds without determining whether there was a need for the funds. When asked to provide support for the deobligations, officials indicated that there was no support. The actions taken by the Deputy to improve the current process; that is, developing criteria and a list of records that must be retrieved and maintained by the Financial Management Division Managerial Accounting Branch before a deobligation is made, were responsive to the recommendation and conformed to requirements; no additional comments are needed.

## Appendix A. Scope and Methodology

We conducted this performance audit from March 2009 through February 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The audit was to focus on the Department of the Army unliquidated obligations for contracts supporting overseas contingency operations. However, as the audit team attempted to identify a list of relevant contracts, AMC officials indicated that the line of accounting does not consistently use coding to identify contracts with overseas contingency operation funds. As a result, officials were unable to provide an all-inclusive list of contracts supporting overseas contingency operations. Because we could not identify overseas contingency operations contracts, we decided to review AMC's and AMCOM's FY 2009 Triannual Review process, which includes the review and certification of unliquidated obligations on contracts, some of which may support overseas contingency operations.

Specifically, we reviewed a judgmental sample of 94 unliquidated obligations, valued at approximately \$125.8 million, on contracts with Operation and Maintenance funds from AMCOM's FY 2009 phase I and II triannual review files. To determine our sample, we analyzed AMCOM's phase I triannual review file containing 1,254 unliquidated obligations, with a total value of approximately \$28.7 million, on contracts with Operation and Maintenance funds. We then developed a judgmental sample of 64 unliquidated obligations valued at \$100,000 or more. We also analyzed AMCOM's phase II triannual review file containing 6,770 unliquidated obligations, with a total value of approximately \$252.5 million, on contracts with Operation and Maintenance funds. We developed a judgmental sample of 30 unliquidated obligations representing the 10 highest unliquidated obligation balances from each of the 2<sup>nd</sup>, 3<sup>rd</sup>, and 4<sup>th</sup> expiring years.

To accomplish the audit objective, we met with the following offices and reviewed the following data.

- We contacted officials from the following offices to identify the policies and procedures in place for internal controls over unliquidated obligations, document the triannual review process, and assist in the validation of the 94 unliquidated obligation balances.
  - ASA (FM&C)
  - ASA (Acquisition, Logistics, and Technology)
  - DFAS Indianapolis
  - DFAS Columbus
  - Army Budget Office
  - AMC

- AMCOM
  - TACOM Life Cycle Management Command
  - RDECOM
  - PEO Aviation
  - PEO C3 Tactical
  - PEO Missile and Space
  - PEO Air and Missile Defense
  - U.S. Army Garrison-Redstone
  - SMDC/ARSTRAT
- We reviewed triannual review files, contract delivery orders, contract modifications, vouchers, Standard Operation and Maintenance Army Research and Development System transaction history reports, Mechanization of Contract Administration Services reports, and Computerized Accounts Payable System reports to determine whether the fund holders responsible for reviewing the 94 unliquidated obligations during the triannual review followed DOD guidance and whether the amounts were valid.
  - We reviewed applicable laws and regulations, including DOD FMR and DFAS-IN 37-1, to determine the procedures for performing triannual reviews and to identify supporting documentation requirements.

## **Use of Computer-Processed Data**

To perform this audit, we used data that originated from the Standard Operation and Maintenance Army Research and Development System, the primary AMC financial accounting system. We used these data to determine the sample of unliquidated obligations for our review and to determine the validity of the 94 unliquidated obligation balances. We compared these data amounts to source system data and source documents, such as contract delivery orders, contract modifications, vouchers, and voucher lists.

The source systems included the following entitlement and data storage systems:

- the Mechanization of Contract Administration Services and Computerized Accounts Payable System, which are entitlement systems that provide information on obligation and expenditure amounts;
- the Electronic Document Access system, which stores contracts, contract orders, and contract modifications; and
- the Shared Data Warehouse system, which provides a database environment where shared, standardized, and cross-functional contracting data are available to DOD.

Our assessment indicated that data within the Standard Operation and Maintenance Army Research and Development System were sufficiently reliable for the purpose of our review.



## **Appendix B. Prior Coverage**

During the last 5 years, the Government Accountability Office (GAO), the Department of Defense Inspector General (DOD IG), the Special Inspector General for Iraq Reconstruction (SIGIR), and the Army Audit Agency (AAA) have issued 13 reports discussing topics related to unliquidated obligations and triannual reviews. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DOD IG reports can be accessed at <http://www.dodig.mil/audit/reports>. Unrestricted SIGIR reports can be accessed at <http://www.sigir.mil>. Unrestricted Army reports can be accessed from a .mil domain over the Internet at <https://www.aaa.army.mil/>.

### **GAO**

GAO Report No. 09-233R, “Global War on Terrorism: Reported Obligations for the Department of Defense,” December 15, 2008

### **DOD IG**

DOD IG Report No D-2009-117, “Controls Over Air Combat Command and Pacific Air Forces Unliquidated Obligations from Department of the Air Force Contracts Supporting Contingency Operations,” September 29, 2009

DOD IG Report No. D-2009-067, “Controls Over Air Force Materiel Command Unliquidated Obligations on Department of the Air Force Contracts Supporting the Global War on Terror,” April 3, 2009

DOD IG Report No. D-2009-058, “DOD Cost of War Reporting of Supplemental Funds Provided for Procurement and Research, Development, Test, and Evaluation,” February 27, 2009

DOD IG Report No. D-2008-026, “Management of the Iraq Security Forces Fund in Southwest Asia - Phase III,” November 30, 2007

DOD IG Report No. D-2008-027, “Air Force Use of Global War on Terrorism (GWOT) Supplemental Funding Provided for Procurement and Research, Development, Test, and Evaluation,” November 21, 2007

DOD IG Report No. D- 2006-085, “Vendor Pay Disbursement Cycle, Air Force General Fund: Funds Control,” May 15, 2006

### **SIGIR**

SIGIR Report No. 07-011, “Controls Over Unliquidated Obligations in the Iraq Relief and Reconstruction Fund,” October 23, 2007

### **AAA**

AAA Report No. A-2008-0209-FFH, “Supplemental Funding for the Global War on Terrorism Summary Report,” August 6, 2008

AAA Report No. A-2008-0165-FFH, "FY07 Supplemental Funding for the Global War on Terrorism, U.S. Army Medical Command," June 18, 2008

AAA Report No. A-2007-0039-FFP, "Global War on Terrorism Supplemental Funding, Tripler Army Medical Center," December 21, 2006

AAA Report No. A-2007-0033-FFH, "Medical Funding for the Global War on Terrorism, U.S. Army Medical Command," December 7, 2006

AAA Report No. A-2006-0081-ALL, "Audit of Unliquidated Obligations, Audit of Logistics Civil Augmentation Program Operations in Support of Operation Iraqi Freedom," March 17, 2006

## Appendix C. DOD OIG Review Process

The Army fund holders could not provide adequate supporting documentation of their FY 2009 phase I and II unliquidated obligation reviews. Thus, we performed an independent review of those obligations to determine whether the amounts were accurate and a valid need still existed for the funds. We performed the following steps for each unliquidated obligation reviewed.

1. To determine the accuracy of unliquidated obligation amounts, we:
  - a. Compared the Standard Operation and Maintenance Army Research and Development System obligation transaction history to the contract order and modifications for the specific contract line in which the funds were obligated to determine whether the recorded obligation amount was accurate.
  - b. Compared the Standard Operation and Maintenance Army Research and Development System recorded disbursements for the line item to the recorded disbursement transactions in the entitlement system by obtaining a disbursement report for the line item from the entitlement system.
  - c. Determined the unliquidated obligation balance by subtracting the total of the disbursements from the total obligation amount.
  - d. Requested copies of the disbursement vouchers from the accounting office if we identified different amounts.
2. To determine whether a continued need for the funds existed, we:
  - a. Reviewed the period of performance for the line item to determine whether work was complete or ongoing.
  - b. Determined the last activity on the line item to see whether any disbursements, additional obligations, or deobligations had taken place in the last 120 days.
  - c. Contacted contracting officials if no activity had occurred to determine whether billing was complete or any modifications had been issued extending the performance date or deobligating the remaining funds. If contracting officials determined funds were still needed, then the line item was still active and supported a continued need.

## Appendix D. DOD OIG Results of Review of Unliquidated Obligations by Fund Holder

			Number				
Army Fund Holder	Number Reviewed	Amount Reviewed	Valid	Invalid	Validity Unknown	Amount to Deobligate	Amount of Canceled Funds*
SDMC/ARSTRAT	1	\$5,763,137	1				
Army Garrison-Redstone	4	2,658,038	1	1	2		
PEO Aviation	35	60,851,123	15	7	13	\$3,016,040	
PEO C3 Tactical	7	2,582,984		4	3		
PEO Missile & Space	5	12,203,977	5				\$168,054
PEO Air & Missile Defense	5	3,972,555	2	3			
AMCOM	26	31,957,943	9	8	9	1,343,794	239,920
RDECOM	11	5,780,457	6	2	3		
<b>Total</b>	<b>94</b>	<b>\$125,770,214</b>	<b>39</b>	<b>25</b>	<b>30</b>	<b>\$4,359,834</b>	<b>\$407,974</b>

\* Funds that remained obligated on these unliquidated obligations were canceled on September 30, 2009, and no longer available for disbursement. Invoices received for these contracts after September 30, 2009, must be paid using current-year funds.

# Assistant Secretary of the Army (Financial Management and Comptroller) Comments

Final Report  
Reference



REPLY TO  
ATTENTION OF

DEPARTMENT OF THE ARMY  
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY  
FINANCIAL MANAGEMENT AND COMPTROLLER  
109 ARMY PENTAGON  
WASHINGTON DC 20310-0109

MAR 24 2010

MEMORANDUM THRU Auditor General, Department of the Army, 3101 Park Center Drive, Alexandria, Virginia 22302-1596

FOR Inspector General, Department of Defense, Defense Business Operations, 400 Army Navy Drive, Arlington, Virginia 22202-4704

SUBJECT: Controls Over Unliquidated Obligations for Department of the Army Contracts (Project No. D2009-D000FC-0176.000)


1. We appreciate the opportunity to comment on subject report. The attachment provides our comments to your recommendations.

2. The Army leadership takes the Tri-Annual Review process and controls over unliquidated obligations seriously and we will continue to follow and emphasize the requirements as specified in the Department of Defense Financial Management Regulation (DODFMR) and DFAS Regulation 37-1. As such, the Assistant Secretary of the Army for Financial Management and Comptroller (ASA(FM&C)) will take the actions specified in the attachment to this memorandum in order to meet the recommendations and improve controls over unliquidated obligations as provided in your report.

3. The DoD IG should however, modify the report to reflect the limited scope of the audit and the command audited. The report makes generalizations and conclusions as to "the overall unliquidated obligation process," and indicates, "the internal control weakness existed in the Army Triannual review process." Since the report was based on a targeted sample of limited size and population from a single Army subordinate command, recommend you not characterize your findings as Army-wide issues.

4. My Point of contact is [REDACTED]

Attachment

  
John J. Argodale  
Deputy Assistant Secretary of the Army  
(Financial Operations)

Revised-Results in  
Brief

**Department of the Army's Response to DODIG Audit of Controls Over  
Unliquidated Obligations for Department of the Army Contracts: Project No.  
D2009-D000FC-0176.000**

**DODIG Recommendations:**

- A. We recommend that the Assistant Secretary of the Army (Financial management and Comptroller):
1. Establish standardized guidance that includes the specific steps and types of source data to ensure that all Army fund holders perform adequate triannual reviews of unliquidated obligations.
  2. Develop a process to ensure that Army fund holders maintain adequate supporting documentation of their reviews for 24 months as required by the DOD Financial Management Regulation, volume 3, chapter 8, and Defense Finance and Accounting Service-Indianapolis 37-1, chapter 27.
  3. Deobligate \$4.4 million in invalid unliquidated obligations on contracts W58RGZ06C0194, W58RGZ04G00230012, and W31P4Q06C0352.
  4. Conduct a review of the potential Antideficiency Act violation for contract W58RGZ06C0194, initiate appropriate actions based on the results of the review, and provide the results to us.
  5. Establish procedures to discontinue the practice of obligating funds in anticipation of contractor claims when there is no supporting documentation to support the claim amount.
  6. Review two Program Executive Office Aviation unliquidated obligation balances totaling approximately \$11 million on contract W31P4Q06C0256 to determine the validity and provide the results to us.

**Management Response to recommendations:**

For recommendations A.1, A.2, and A.5, by April 30, 2010, the office of the Assistant Secretary of the Army (Financial Management and Comptroller) (ASA-FM&C) will prepare a memorandum to Army commands directing that:

- a. Triannual Review is to be performed in accordance with the DOD Financial Management Regulation and DFAS-IN 37-1.

- b. Resource Managers demonstrate they have validated the continuing need for goods and services supported by unliquidated obligations with requiring activities as part of the Triannual Review.
- c. Obligations and obligation adjustments must be supported with proper documentation.
- d. Accounting records need to be properly supported.

For recommendation A.3, by April 30, 2010, the office of the ASA (FM&C) will direct the applicable fund holder(s) to review contracts W58RGZ04G00230012, and W31P4Q06C0352, determine the validity of unliquidated obligation balances, and deobligate any invalid unliquidated balances.

For recommendation A.4, by March 31, 2010, the office of the ASA (FM&C) will direct the fund holder for contract W58RGZ06C0194 to initiate a preliminary investigation of a potential ADA violation in accordance with Volume 14, Chapter 3, paragraph 030402, of the DOD FMR.

For recommendation A.6, by April 30, 2010, the office of the ASA (FM&C) will direct the fund holder to review and determine the validity of the \$11 million unliquidated balance on contract W31P4Q06C0256.

# Army Materiel Command Comments



REPLY TO  
ATTENTION OF:

DEPARTMENT OF THE ARMY  
HEADQUARTERS, U.S. ARMY MATERIEL COMMAND  
9301 CHAPEK ROAD  
FORT BELVOIR, VA 22060-5527

21 MAY 2010

AMCIR


MEMORANDUM FOR USAAA, ATTN: [REDACTED], 3101 Park Center Drive, Alexandria, VA 22302-1596

SUBJECT: Command Comments, DODIG Draft Report, Controls Over Unliquidated Obligations for Department of the Army Contracts, February 16, 2010 (D2009-D000FC-0176.000) (D0930)

1. The U.S. Army Materiel Command (AMC) has reviewed the subject draft report and has enclosed comments to Recommendations B.1.a to B.1.c. AMC has also reviewed comments provided by U.S. Army Aviation and Missile Command (AMCOM) Life Cycle Management Command for Recommendations B.2.a to B.2.e. AMC endorses AMCOM's comments

2. The AMC point of contact is [REDACTED]

Encl

  
TERESA W. GERTON  
Executive Deputy to the  
Commanding General



**The U.S. Army Materiel Command Comments on DoDIG Draft Report  
on Controls Over Unliquidated Obligations for Department of the  
Army Contracts, Project No. D2009-D000FC-0176.000**

**Recommendation B.1.** We recommend that the Director, Resource Management, Army Materiel Command:

a. Rescind the Army Materiel Command triannual review guidance that conflicts with the DOD guidance regarding the date of the unliquidated obligation balances to review.

COMMENTS: Concur with Intent. The Army Materiel Command (AMC) provides the guidance provided by Assistant Secretary of the Army (Financial Management and Comptroller) (ASA (FMC)) for each phase of the joint reviews. For the 31 January 2009 Phase I requirements, this ASA (FMC) guidance was provided to the Aviation and Missile Command Life Cycle Management Command as well as all of our other major subordinate commands. We did not provide any information that conflicted with DoD guidance, therefore, we cannot formally rescind guidance we did not publish. In the future we will continue to provide guidance provided by ASA (FMC) and as we develop internal Standard Operating Procedures (SOP), ensure that they comply with DoD requirements. AMC SOP is currently in draft form with a projected release date of 30 June 2010.

b. Verify that the unliquidated obligations reported on the Army Materiel Command triannual review confirmation statements match the balance of unliquidated obligations reviewed and certified by the Aviation and Missile Command Life Cycle Management Command and its other major subordinate commands.

COMMENTS: Concur: The Army Materiel Command (AMC) will work with the Aviation and Missile Command Life Cycle Management Command and our other major subordinate commands to verify that unliquidated obligations reported match the balances on confirmation statements as well as tie back to the DFAS Columbus 218 data. To further reinforce this reconciliation process, AMC is currently developing an SOP to assist commands and the AMC in accurately reporting data for these triannual review phases. The SOP has a projected release date of 30 June 2010.

c. Establish due dates for receipt of the triannual reviews to ensure that the Army Materiel Command signs the confirmation statements for the Aviation and Missile Command Life Cycle Management Command and other major subordinate commands within the required time frames.

COMMENTS: Concur: The Army Materiel Command (AMC) will establish due dates for receipt of the triannual reviews reports from Aviation and Missile Command Life Cycle Management Command and other major subordinate commands to allow time for consolidation and to ensure that confirmation statements are signed within the required time frames. AMC is currently providing additional oversight and for Phase I DA JRP for FY 2010 ( Jan 2010) all submissions were submitted within the required time frame.

# Army Aviation and Missile Command Life Cycle Management Command Comments



DEPARTMENT OF THE ARMY  
UNITED STATES ARMY AVIATION AND MISSILE COMMAND  
REDSTONE ARSENAL, ALABAMA 35898-6000

REPLY TO  
ATTENTION OF

AMSAM-IR

18 MAY 2010

MEMORANDUM THRU [REDACTED], Director, Internal Review and Audit  
Compliance Office (IRACO), 9301 Chapek Road, Fort Belvoir, VA 22060-5527

FOR Department of Defense, Office of Inspector General, 400 Army Navy Drive,  
Arlington, VA 22202-4704

SUBJECT: DODIG Draft Report on Controls Over Unliquidated Obligations for  
Department of the Army Contracts (Project No. D2009-D000FC-0176.000) (AMC  
D0930) (AMCOM 2009L037D)

1. Reference e-mail, 17 Feb 10, subject, DODIG Draft Report: Controls Over  
Unliquidated Obligations for Department of the Army Contracts (Project No.  
D2009FC-0176.000)
2. The US Army Aviation and Missile Life Cycle Management Command (AMCOM)  
comments to the subject report are enclosed.
3. The points of contact for this action are [REDACTED] Internal Review and Audit  
Compliance Office (AMSAM-IR), [REDACTED]  
[REDACTED]  
[REDACTED]

Encl

RONALD E. CHRONISTER  
Deputy to the Commanding General

**Aviation and Missile Life Cycle Management Command (AMCOM) Comments on  
the Draft DoD IG Report: Controls Over Unliquidated Obligations for Department  
of the Army Contracts, (Project No. D2009-D000FC-0176.000)**

The DODIG recommended that the Director, Resource Management, AMCOM address five areas. As an overall note, there are many commands collocated with AMCOM at Redstone Arsenal; however, they do not come under our command and control, nor that of AMC. In particular, PEO Missile and Space and PEO Aviation identified in the audit report belong to ASA(ALT) and not to AMCOM. AMCOM G8 is dedicated to ensuring the objectives of the triannual review are met and welcome the opportunity to respond, and provide the command responses below:

**B.2 Recommendation:** We recommend that the Director, Resource Management, US Army Aviation and Missile Command Life Cycle Management Command:

a. Establish procedures to verify that the unliquidated obligations reported on its triannual review confirmation statements match the balance of unliquidated obligations that were reviewed.

Command Response: Concur. When preparing the documentation for a JRP review, the ULO balance was manually annotated on the summary worksheet incorrectly. AMC G8 identified the error and contacted AMCOM G8 for clarification. AMCOM G8 provided verbal confirmation of the correct balance; however, mistakenly forgot to update the manual worksheet. Although the manual summary sheet was incorrect, the supporting documentation had the correct balance. The supporting data has been pulled from a system called Document Direct, which has been in place since January 1998. Data is run six times a year, creating three separate snapshots from SOMARDS, referred to and used in the JRP, as phases (Phases I, II and III). Data is available for use by managers and fund holders during each phase. We will ensure data from the source is properly annotated on the manual worksheets in the future. AMCOM G8 is preparing a checklist that will include a check of the manual worksheets for completeness and accuracy. This checklist will be prepared, coordinated, published, and fully implemented by 15 July 2010. This appears to be a one-time occurrence and not a systemic problem, previous/subsequent reviews have been correct.

b. Establish procedures to verify that all designated personnel have provided confirmation statements before signing its confirmation statement for the Army Materiel Command.

Command Response: Concur. During the DODIG visit to AMCOM G8 in June/July 2009, the auditors were provided copies of the Phase I confirmation statements, as requested. Based on this review, it was identified that AMCOM G8 signed the command confirmation statement before receiving the individual confirmation statements from the POEs. Beginning with Phase I, Feb 2010, AMCOM ensured all designated personnel provided signed confirmation statements before the G8 signed the command confirmation statement for AMCOM. The AMCOM G8 has personnel assigned and responsible for a designated manager/fund holder to ensure that each manager/fund holder returns the required confirmation statement before the due

date. In addition, AMCOM G8 is preparing and will maintain a roster with the names of those persons designated to confirm, record, sign, and date their respective AMCOM POEs confirmation statements. This new procedure shall be implemented by 30 June 2010.

c. Establish procedures to ensure that it uses the correct date when retrieving unliquidated obligations to review for each triannual review phase.

Command Response: Concur. AMCOM incorrectly used the 31 December 2008 ULO balance instead of the 31 January 2009 ULO balance. This was an inadvertent mistake, which was corrected in January 2010 during the Phase I Review; however, the correct data pulls were used for subsequent triannual reviews in 2009. AMC was able to identify the error quickly because of the monthly AMC JRP review process and reported the disconnect to AMCOM. This error was a one-time oversight that was corrected by AMC in Feb 2009 prior to submission to DA. Although a one-time oversight, AMCOM G8 has been following DFAS-IN Regulation 37-1 and DODFMR since 1997. However, to enhance this process and to prevent future mistakes, AMCOM G8 is preparing a checklist that will be used to identify the proper data sources. This checklist will be prepared, coordinated, published, and fully implemented by 15 July 2010.

d. Establish due dates for receipt of the triannual reviews to ensure that Army designated personnel sign the confirmation statements within the required time frame so its confirmation statement is submitted to the Army Materiel Command in a timely manner.

Command Response: Concur. AMCOM G8 signed the command confirmation statement before receiving all of the individual confirmation statements from the POEs (addressed in B.b. above), because the POEs did not meet the suspense set by AMCOM. To ensure the individual confirmation statements are received by the suspense dates AMCOM has implemented a new process. Effective immediately, the AMCOM G8, Financial Management Division Managerial Accounting Branch shall prepare, establish and implement a LOG to use for tracking the status of the tri-annual reviews.

e. Establish a review process that ensures that Army designated personnel perform and document adequate reviews before it deobligates funds from the accounting system.

Command Response: Concur. Beginning with Phase I Feb 2010, AMCOM will ensure de-obligations of un-liquidated obligations (ULOs) are supported with proper documentation. AMCOM has a review process which ensures that Army designated personnel perform and document review results adequately before funds are deobligated from the accounting system. It has been in place since calendar year 2000 IAW AMCOMR 37-17, Financial Administration, Joint Reconciliation Program, 21 September 2000 (previously provided to the audit team). However, to enhance this process, AMCOM G8 will include in the checklist referred to in Command Comment B.2.a criteria and a list of the records that must be retrieved and maintained by the AMCOM G8, Financial Management Division Managerial Accounting Branch before a deobligation is made for making funds available for other use.







# Inspector General Department of Defense

